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FM AIT TAIPEI  
TO RUEHC/SECSTATE WASHDC 3668  
RUEATRS/DEPT OF TREASURY WASHDC  
INFO RUCPDOG/USDOC WASHDC  
RUEHBK/AMEMBASSY BANGKOK 3520  
RUEHBJ/AMEMBASSY BEIJING 6170  
RUEHUL/AMEMBASSY SEOUL 8372  
RUEHGP/AMEMBASSY SINGAPORE 6741  
RUEHKO/AMEMBASSY TOKYO 8353  
RUEHML/AMEMBASSY MANILA 9888  
RUEHJA/AMEMBASSY JAKARTA 3975  
RUEHKL/AMEMBASSY KUALA LUMPUR 3625  
RUEHHI/AMEMBASSY HANOI 3189  
RUEHBY/AMEMBASSY CANBERRA 4407  
RUEHWL/AMEMBASSY WELLINGTON 1672  
RUEHHK/AMCONSUL HONG KONG 7403  
RUEHGH/AMCONSUL SHANGHAI 0679  
RUEHGZ/AMCONSUL GUANGZHOU 9861

UNCLAS SECTION 01 OF 02 TAIPEI 000063

SIPDIS

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SENSITIVE

STATE PLEASE PASS USTR  
STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR ALTBACH  
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [EIND](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Reorganization Signals Collapse of China Rebar

REF: 07 TAIPEI 00049

SUMMARY

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[¶1.](#) (SBU) On January 4, 2007, China Rebar Pacific Group (CRPG) announced reorganization plans for two affiliated companies triggering declines in share prices of all companies affiliated with CRPG and a run on two financial institutions affiliated with the group. The court granted the two companies 90 days protection while it evaluates the reorganization plan (which creditor banks oppose). Whether CRPG's difficulties stem from years of poor business decisions, deliberate looting by its top executives, or a combination of factors is still unclear. End Summary.

Reorganization Plans

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[¶2.](#) (U) In a press conference on the morning of January 4, CRPG announced that the Taipei District Court (TDC) granted its two affiliated companies, China Rebar (CR) and Chia Hsin Food and Synthetic Fiber (CFSF), a 90-day protection period prior to a decision on the reorganization request. During the protection period, the TDC suspended the bankruptcy process and creditors' actions against CR and will allow these two companies to operate normally. However, the TDC restricted the two companies from transferring assets. The two companies report a combined loss of NT\$25.3 billion (US\$778.7 million) over the past seven years and outstanding debt of NT\$40.6 billion (US\$1.25 billion).

Immediate Impacts

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[¶3.](#) (U) The CRPG's announcement promptly drove down share prices of all CRPG-affiliated companies by the daily limit (i.e., seven

percent below the previous day closing prices) in the subsequent three trading days. The announcement also prompted withdrawal of NT\$32 billion (US\$984.6 million) from Chinese Bank (CB) (reftel) and dumping of commercial paper underwritten by Great Chinese Bills Finance (GCBF) company. The dumping has created an acute liquidity gap of NT\$8.8 billion (US\$271 million) for GCBF. CRPG is the major shareholder of both CB and GCBF.

#### Remedial Actions

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14. (U) On January 5, the Financial Supervisory Commission (FSC), at CB's request, ordered the Central Deposit Insurance Corporation (CDIC) to take over CB. On January 6, FSC ordered Cooperative Bank of Taiwan and Cathay United Bank to take over GCBF. FSC also instructed Chunghwa Post Corporation, Bank of Taiwan, Land Bank of Taiwan, First Commercial Bank, and Business Bank of Taiwan to purchase commercial paper from GCBF to narrow GCBF's liquidity gap.

15. (U) In a press conference on January 6, Premier Su Tseng-chang, FSC Chairman Shih Jun-ji, Finance Minister Ho Chih-chin and Central Bank Governor Perng Fai-nan jointly guaranteed 100% protection for all deposits at CB and will provide another NT\$40 billion (US\$1.2 billion) to meet withdrawal requirements.

#### Suspected Financial Crimes and Misconduct

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16. (U) According to press reports, the FSC suspects CRPG Chairman Wang You-tseng and his family members engaged in insider trading prior to the January 4 announcement of reorganization plans. Local media speculate that Wang may have embezzled dozens of billions of

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NT Dollars to fund investment projects in China. Law enforcement agencies are now investigating these allegations. Legislators urged FSC Chairman Shih and Finance Minister Ho to step down to take responsibility for failing to act earlier.

#### Effect on Stock Market

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17. (U) In addition to the price drops for CRPG-affiliated stocks, Taiwan's stock price index plunged 1.25% on January 5 and another 1.26% on January 6. During these two days, share prices of banking issues declined 3%, slightly more than the 2.5% drop in the general stock price index. In addition to the influence of CRPG, local observers attributed the drops partly to market corrections and partly to press reports about a new nuclear test by North Korea which also drove down share prices by 1.5% in Tokyo, 0.8% in Seoul, 2.8% in Shanghai, and 3.1% in Bangkok on January 5.

18. (U) Yung-cheng Securities Investment Consultant Wang Wen-liang commented on January 8 that a market correction was to be expected since Taiwan's stock price had surged 25% in the second half of 2006. He noted market corrections took place throughout East Asia on January 8 when stock prices dropped 1.1% in Seoul, 1.5% in Tokyo, 1.5% in Manila, and 0.9% in Hong Kong. On January 9, Taiwan's stock price index rebounded 0.7%.

#### What Went Wrong

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19. (SBU) Comment: While it is common for business groups to rise and fall, the difficulties that forced CRPG to reorganize CR and CFSF appear to be the consequence of both a poor business strategy and criminal misconduct by the company's top executives. Taiwan regulators have responded appropriately to this crisis by immediately reassuring depositors and providing funds to satisfy the demand for withdrawals. The FSC actions in ordering the takeover of CB and GCBF also appear to be prudent moves designed to stop the spread of the problem to other financial institutions. Still, regulators should have noticed the problems CRPG was having earlier and taken preventative action.

YOUNG